

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AS-01 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04

OPIC-06 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 /111 W

-----054080 230833Z /12

P R 230556Z JUN 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 8856

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY BRUSSELS

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C O R R E C T E D C O P Y (TEXT)

BRUSSELS FOR US MISSION EEC

PARIS ALSO FOR US MISSION OECD

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- JUNE 16-22

1. SUMMARY: AMID PRESS STORIES OF FOREIGN CONCERN OVER JAPAN'S CURRENT ACCOUNT SURPLUS, GOVT IS REPORTEDLY TAKING HARDER LOOK AT PROBLEM. DISSATISFACTION WITH RECOVERY PACE, PROMPTS ACTION AND PROPOSALS INTENDED TO PERK UP SLUGGISH BUSINESS INVESTMENT. INDICATORS RELEASED THIS PAST WEEK PROVIDE MORE EVIDENCE THAT ECONOMY IMPROVES SLOWLY. GOVT ANNOUNCES MODEST STEPS TO SIMPLIFY IMPORT PROCEDURES AND REPORTEDLY WILL EASE RULES ON PORTFOLIO INVESTMENT ABROAD. END SUMMARY.

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WM IN WAKE OF TOKYO VISIT BY TREASURY SECRETARY BLUMENTHAL, COMMENTS AT JAPAN-U.S. BUSINESSMEN'S CONFERENCE AND RECENT MEETING OF THE OECD ECONOMIC POLICY COMMITTEE HAVE REPORTEDLY MOVED GOVT TO TAKE A HARDEN LOOK AT THE LARGE CURRENT ACCOUNT SURPLUS AS WELL AS YEN EXCHANGE RATE BEHAVIOR. ON JUNE 20, ONE DAY AFTER FINANCE VICE MINISTER

MATSUKAWA RETURNED FROM THE OECD MEETING, SENIOR MINISTRY OF FINANCE (MOF) OFFICIALS REPORTDLY DECIDED TO MAINTAIN PRESENT POLICY OF ONLY TEMPORARY INTERVENTION IN FOREX MARKETS AT TIME OF DISRUPTIVE FLUCTUATIONS AND TO GIVE GREATER PRIORITY TO EFFORTS TO REDUCE THE CURRENT ACCOUNT SURPLUS. ALTHOUGH PRESS REPORTS INDICATE JAPANESE ARE WELL AWARE OF COMPLAINTS ABROAD THAT CURRENT YEN EXCHANGE RATES MAY NOT FULLY REFLECT RECENT UPSURGE IN TRADE SURPLUS, MANY IN BUSINESS COMMUNITY HERE SEEM TO PERCEIVE YEN 270 PER DOLLAR RATE AS VAGUE PSYCHOLOGICAL BARRIER BEYOND WHICH, AS ONE JAPANESE FOREIGN EXCHANGE BANK OFFICIAL SPECULATED, BOJ WOULD INTERVENE ON LARGE SCALE. PRESS REPORT OF THE JUNE 20 MEETING MAY REFLECT MOF EFFORT TO LOOSEN UP SUCH MARKET PSYCHOLOGY. NEVERTHELESS, PUBLIC REACTION IN TOKYO TO ASSISTANT SECRETARY BERGSTEN'S REMARKS CONCERNING YEN EXCHANGE RATE FLEXIBILITY HAS BEEN RELATIVELY MUTED, WITH PRINCIPAL PRESS AND BUSINESS FOCUS ON ISSUE OF STEEL EXPORTS (TOKYO 9047).

3. IN AN APPARENT EFFORT TO GIVE FURTHER STIMULUS TO DAWDLING BUSINESS INVESTMENT, THE GOVT AND BANK OF JAPAN REPORTEDLY DECIDED ON JUNE 21 ON ANOTHER OVERALL REDUCTION IN LONG-TERM INTEREST RATES, THE SECOND IN TWO MONTHS. ALTHOUGH NO OFFICIAL ANNOUNCEMENT HAS BEEN MADE AND NEGOTIATIONS WITH PRIVATE SECTOR CONTINUE, BOJ OFFICIAL TOLD EMBASSY PRESS REPORTS OF A PLANNED RATE REDUCTION WERE GENERALLY RELIABLE. THESE REPORTS INDICATED THAT UNCLASSIFIED

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PROPOSED RATE CUTS ARE LIKELY TO RANGE FROM 0.2 TO 0.4 PERCENTAGE POINTS, MUCH SMALLER THAN 0.8 PERCENTAGE POINT REDUCTION IMPLEMENTED IN EARLY MAY. COMMERCIAL BANKS' LONG-TERM PRIME LENDING RATES WILL BE LOWERED BY 0.2 PERCENTAGE POINTS TO 8.2 PERCENT PER ANNUM AROUND JUNE 27: HOWEVER, RATES ON HOUSING LOANS BY MAJOR COMMERCIAL BANKS ARE EXPECTED TO REMAIN UNCHANGED FOR THE PRESENT. YIELDS ON TOP-RATE INDUSTRIAL BONDS (AA RATING WITH TEN-YEAR MATURITY) WILL BE REDUCED BY 0.4 PERCENTAGE POINTS EFFECTIVE WITH JULY ISSUES, TWICE AS MUCH AS 0.2 PERCENTAGE POINT REDUCTION IN YIELD TO SUBSCRIBERS ON TEN-YEAR GOJ BONDS. AFTER-TAX YIELDS ON FIVE-YEAR GOVT DISCOUNT BONDS, WHICH WERE NOT SUBJECT TO MAY REDUCTIONS, WILL BE LOWERED BY 0.9 PERCENTAGE POINTS. DEPOSIT RATES ON FIVE-YEAR BANK DEBENTURES AND PROVISIONAL DIVIDEND RATES FOR FIVE-YEAR LOAN TRUSTS AND MONEY IN TRUST ARE ALSO TO BE LOWERED BY 0.2 PERCENTAGE POINTS IN JULY.

4. AT JUNE 16 PRESS CONFERENCE, BANK OF JAPAN (BOJ) GOVERNOR TEIICHIRO MORINAGA REPORTEDLY CALLED FOR INTRODUCTION OF INVESTMENT TAX CREDITS TO STIMULATE PRIVATE CAPITAL INVESTMENT TO SUPPLEMENT SERIES OF PUMP-PRIMING

PACKAGES GOVT HAS IMPLEMENTED IN PAST FEW MONTHS.
ALTHOUGH BOJ'S OFFICIAL DISCOUNT RATE WAS LOWERED TWICE BY
TOTAL OF 1.5 PERCENTAGE POINTS IN MARCH AND APRIL, GOVT
ACCELERATED SOME BUDGET SPENDING IN EARLY PART OF THIS
FISCAL YEAR, AND LONG-TERM PRIVATE LENDING RATES WERE
REDUCED BY AROUND 0.8 PERCENTAGE POINTS AROUND EARLY MAY,
PRIVATE CAPITAL INVESTMENT HAS DISPLAYED NO SIGN OF IMPROVE-
MENT THUS FAR. NIHON KEIZAI REPORT INTERPRETED MORINAGA'S
PROPOSAL AS REFLECTING CONCERN AMONG BOJ OFFICIALS THAT, SINCE
MONETARY STIMULUS, INCLUDING REPORTED ADDITIONAL ONG-TERM
INTEREST RATE CUTS PLANNED FOR JULY, WILL NOT BE STRONG
ENOUGH BY ITSELF TO BOOST PRIVATE SPENDING, TAX
MEASURES WILL ALSO BE NECESSARY. WHILE MORINAGA DID NOT
EXPLAIN DETAILS OF HIS SUGGESTION, PRESS NOTED THAT
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ADVISORY COUNCIL TO PRIME MINISTER ON TAX MATTERS SENT
OFFICIALS TO U.S. AND EUROPE THIS SPRING TO INVESTIGATE
PROCEDURES OF INVESTMENT TAX CREDIT PROGRAMS OF THOSE
COUNTRIES. HOWEVER, SINCE FISCAL YEAR IS NOW UNDER WAY AND
APPROVAL OF DIET (NOW IN RECESS) WOULD BE REQUIRED, IT
APPEARS UNLIKELY THAT AN INVESTMENT TAX CREDIT PROGRAM WILL
BE IMPLEMENTED THIS FISCAL YEAR. INSTEAD PRESS REPORTS
INDICATE IT WILL PROBABLY BE ONE OF THE MAJOR ISSUES IN
TAX PROPOSALS FOR THE NEXT FISCAL YEAR.

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AS-01 AID-05 CIAE-00 COME-00
EB-07 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04
OPIC-06 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05
SS-15 STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 /111 W
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P R 230556Z JUN 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 8857

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

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5. DEPARTMENT STORE SALES INCREASED FOR SECOND STRAIGHT MONTH IN MAY BUT PACE WAS SLUGGISH. NONE OF THE FIVE MAJOR COMMODITY SALES CATEGORIES RECORDED AN INCREASE AS LARGE AS 2 PERCENT AND MAY WAS THE FOURTH STRAIGHT MONTH IN WHICH YEAR-TO-YEAR RISE IN DEPARTMENT STORE SALES INDEX (A VALUE-BASED INDEX) WAS BELOW YEAR-TO-YEAR RISE IN CONSUMER PRICES.

(INDEX, 1970 EQUALS 100) PERCENT CHANGE FROM

	S.A.	PRIOR PERIOD
FEB	255.2	.8, 2.2
MAR	254.0	MIN 0.5
APR	258.8	1.9
MAY	260.6	0.7

6. LABOR CONDITIONS IMPROVED SLIGHTLY IN APRIL EXCEPT FOR DETERIORATION IN THE JOB OFFERS/APPLICANTS RATIO; BUT OVERALL TONE OF LABOR MARKET APPEARS LACKLUSTER. THE NUMBER OF UNEMPLOYED, SEASONALLY ADJUSTED BY ECONOMIC PLANNING UNCLASSIFIED

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AGENCY (EPA), DECLINED BY 30,000 PERSONS TO 1.02 MIL PERSONS IN APRIL, ALTHOUGH THE UNEMPLOYMENT RATE IN APRIL WAS UNCHANGED FROM PRIOR MONTH AT 1.9 PERCENT. (NOTE: PRIME MINISTER'S OFFICE, WHILE USING DIFFERENT SEASONAL FACTORS THAN EPA, ALSO REPORTS THAT APRIL UNEMPLOYMENT RATE WAS 1.9 PERCENT). OVERTIME WORKED IN MANUFACTURING INDUSTRIES CONTINUED TO RISE IN APRIL AND UNIT LABOR COST, ALTHOUGH STILL AROUND 5 PERCENT ABOVE YEAR-EARLIER LEVEL, DECLINED FOR SECOND STRAIGHT MONTH. JOB OFFERS/APPLICANTS RATIO, WHICH STARTED TO DECLINE SINCE FOURTH QUARTER OF LAST YEAR, DIPPED AGAIN IN APRIL. FEB INDEX OF LABOR PRODUCTIVITY IN MACHINERY INDUSTRY, THE LATEST MONTH FOR WHICH DATA AVAILABLE, SHOWED IMPROVEMENT BUT FAILED TO RECOVER FULLY FROM DECLINE REGISTERED IN PRIOR MONTH.

JEI NO.	SERIES (UNIT)	FEB	MAR	APR
385	JOB OFFERS/APPLICANTS RATIO	0.61	0.62	0.59
401	MFG. OVERTIME (1975 EQUALS 100)	143.7	143.8R	145.7
378	UNEMPLOYED (THOUSANDS)	1,030	1,050	1,020
379	UNEMPLOYMENT RATE (PERCENT)	1.9	1.9	1.9
421	UNIT LABOR COST (1970 EQUALS 100)	194.9	192.5	191.0
		1976	1977	
		DEC	JAN	FEB
N/A	LABOR PRODUCTIVITY, MACHINERY			
	(1970 EQUALS 100)	180.0	172.8R	176.2

(NOTE: ALL SERIES ARE SEASONALLY ADJUSTED BY EPA.)

7. MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY ANNOUNCED JUNE 20 PACKAGE OF MINOR MEASURES SIMPLIFYING AND LIBERALIZING IMPORT CONTROL PROCEDURES WHICH REPORTEDLY WILL BE PUT INTO EFFECT BY END OF JULY. AS A RESULT OF THE ANNOUNCED ACTION, IMPORT SHIPMENTS VALUED AT \$3,000 OR LESS WILL NOT HAVE TO BE REPORTED TO THE GOVT (CURRENT LIMIT IS YEN 308,000 OR LESS FOR ITEMS NOT REQUIRING IMPORT LICENSE FROM AN UNCLASSIFIED

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AUTHORIZED FOREX BANK). IMPORT SHIPMENTS WHICH DO NOT INVOLVE FOREIGN EXCHANGE TRANSACTIONS (SUCH AS SAMPLES OF GOODS FOR EXHIBITS) AND WHICH ARE NOT RESTRICTED BY QUOTA, WILL REQUIRE ONLY THE APPROVAL OF CUSTOMS HOUSE COMMISSIONERS IF VALUED AT YEN 3 MIL OR LESS (CURRENT LIMIT IS YEN 1 MIL OR LESS). GOODS IMPORTED UNDER CONSIGNMENT CONTRACT (IN WHICH UNSOLD GOODS WOULD BE RE-EXPORTED TO THE MANUFACTURER OR FOREIGN SHIPPER) GENERALLY WILL NO LONGER REQUIRE PRIOR VALIDATION OF THE MINISTER OF INTERNATIONAL TRADE AND INDUSTRY (ITI). FINALLY, CONTRACTS UNDER WHICH A JAPANESE FIRM CONDUCTS TRADE BETWEEN TWO COUNTRIES OTHER THAN JAPAN MAY ALSO BE CONCLUDED SIMPLY BY REPORTING SUCH CONTRACTS IN MOST CASES, RATHER THAN OBTAINING THE VALIDATION OF THE MINISTER OF ITI AS IS NOW REQUIRED. (NOTE: FULL TRANSCRIPT OF THE MINISTRY'S ANNOUNCEMENT WILL BE TRANSMITTED SEPTEL.)

8. MINISTRY OF FINANCE (OF), ACCORDING TO JUNE 17 REPORT BY NIHON KEIZAI, INTENDS TO ANNOUNCE ANOTHER IN SERIES OF MEASURES SIMPLIFYING AND LIBERALIZING JAPAN'S FOREIGN EXCHANGE CONTROLS. ACCORDING TO PRESS REPORT, NEW PROGRAM, WHICH WILL TAKE EFFECT AROUND END OF JULY, WILL BE DEVOTED TO MEASURES AFFECTING PURCHASES BY JAPANESE INVESTORS OF NEW ISSUES OF SECURITIES DENOMINATED IN FOREIGN CURRENCIES. AT PRESENT SUCH PURCHASES MUST BE LICENSED BY THE FINANCE MINISTER. AS A CONSEQUENCE OF THIS ACTION, JAPANESE WILL BE ABLE TO PURCHASE NEW ISSUES OF FOREIGN NOTES AND BONDS, BOTH LONG AND SHORT-TERM, WITHOUT RESTRICTION. HOWEVER, MOF REPORTEDLY WILL LIMIT THIS RELAXATION TO SECURITIES ISSUED BY FOREIGN GOVTS AND COMPANIES SO THAT NEW FOREIGN CURRENCY DENOMINATED SECURITIES ISSUED OVERSEAS BY JAPANESE FIRMS WILL NOT BE ELIGIBLE FOR PURCHASE BY JAPANESE INVESTORS.

9. EXPORT AND IMPORT CONTRACT PRICE INDICES (1970 EQUALS 100, N.S.A., JEI 80 AND 88, RESPECTIVELY) BOTH ROSE IN UNCLASSIFIED

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MAY TO 137.0 AND TO 213.0, RESPECTIVELY.
MANSFIELD

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Message Attributes

Automatic Decaptioning: X
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Channel Indicators: n/a
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Copy: SINGLE
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
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Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770239-1185, D770224-0163
Format: TEL
From: TOKYO
Handling Restrictions: n/a
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Legacy Key: link1977/newtext/t19770625/aaaaavqe.tel
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Original Handling Restrictions: n/a
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Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2052543
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL AND ECONOMIC DEVELOPMENTS -- JUNE 16-22
TAGS: EFIN, JA
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/cff5ce77-c288-dd11-92da-001cc4696bcc
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